

«The model that didn't travel»

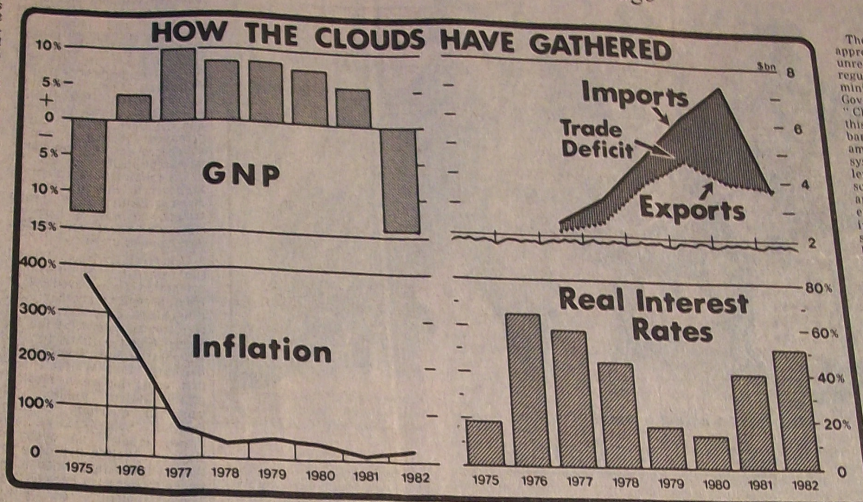
di Anatole Kaletsky (Financial Times, 09 marzo 1983).

Financial Times Wednesday March 9 1983

CHILE'S ECONOMIC EXPERIMENT

The model that didn't travel

By Anatole Kaletsky, recently in Santiago



The extreme laissez faire approach was perhaps most unrealistic with respect to bank regulation. One senior economic minister who is still in the Government explains the "Chicago boys" attitude like this: "There were foreign banks lending extremely high amounts of money to our banking system. We really thought these lenders, who were very conscious of what they were doing and had great market experience, would monitor our institutions themselves. They should not just expect the banks here to be monitored by the Government authorities."

Another former minister puts it more colorfully and bluntly: "From 1977 onwards the whole banking system was going on la dolce vita. De Castro and the Chicago boys had the idea that they would make the market a policeman to bring order to this dolce vita. Today we see the result." For example there were insufficient controls to prevent banks lending excessively to their own subsidiaries and borrowing reserves from them.

The "hollowness" of the boom emerges most clearly from Chile's most revealing economic statistics. The figures for gross fixed investment, which averaged only 15.2 per cent of GNP between 1977 and 1980. Despite all the foreign borrowing, this was one of the lowest investment rates in the developing world and compared with an average of 22.5 per cent for Latin America as a whole.

It is on the macro economic side that the Chilean model has clearly failed. On the micro side, however, there have been considerable improvements in industrial structure and efficiency, particularly from 1975-1979.

On the other hand, as a former Minister in the Allende Government points out: "When you see a system undergoing all this transformation, and there is no investment, something must be very wrong." Perhaps what is "very wrong" in Chile is that the macro economic mismanagement in the end created conditions of instability and high interest rates that were not conducive to investment. Or it may be, as another leading development economist at the World Bank argues, that the "Chicago boys" comparisons between Chile and South Korea, for example, were totally misguided because Korea is not a "free market economy," but a "private enterprise economy," where the Government plays an active role in promoting investment, although it always does this "by recognising market incentives."

'Banking system was going on la dolce vita'

The real measure of Sr De Castro's audacity came when, after three years of a fixed exchange rate, real wages were still growing rapidly as a result of the indexation system. The only way to save the model, he told President Pinochet at this point was to announce a 30 per cent reduction in nominal wages for all employees in both the private and public sector, including the army. President Pinochet asked him to resign and this marked the real conclusion of the experiment with the "Chilean model."

The deeper pitfalls of the "model" emerge when Chileans are asked to give a personal explanation of their economy's collapse. Almost invariably they put the blame on one person — Sergio De Castro, the leader of the "Chicago boys" and the country's Finance Minister from 1977 until last April.

With even more surprising regularity they use a single Spanish word to explain Sr De Castro's failure. The word is "soberbia" and it means something between "arrogance" and "overweening pride." This consisted of trying to force the world to fit the model instead of the other way round.

So committed was he to the free market model that he believed that the failure was due to a series of mistakes or accidents. The accident was the downturn in the world economy (a point which they cannot push too strongly because the free-market model is, after all, supposed to make it easier for an economy to adjust smoothly to changes in external conditions).

There were three basic errors: the maintenance of a fixed exchange rate for three years from June 1979 onwards, the indexation of wages during the same period and the almost total failure to regulate the financial system. Indexed wages and the fixed exchange rate produced an overvalued when Chilean inflation failed to fall rapidly enough to the international level. The unregulated banking system is now prolonging the economic chaos as its dubious accounting practices and questionable loans enmesh the whole of the industrial and financial sectors.

The point that is easily overlooked is that the "errors" of execution were closely related to the model's "successes." The overvalued exchange rate and the insouciance about the banking system and the foreign inflows caused the four-year boom in consumer spending and services which created the record growth rates of the "economic miracle."

The deeper pitfalls of the "model" emerge when Chileans are asked to give a personal explanation of their economy's collapse. Almost invariably they put the blame on one person — Sergio De Castro, the leader of the "Chicago boys" and the country's Finance Minister from 1977 until last April.

edition of his celebrated economics textbook is reduced to attacking Chile as the world's clearest example of "market fascism," a country in which "generals have turned over all economic control to religious zealots—but zealots whose religion is the laissez faire market."

Today, Professor Samuelson would find it easier to attack the Chilean experiment on his own territory of economics. Not even the Government attempts to deny that it is in the midst of economic disaster. The country's gross domestic product fell by 14.1 per cent in 1982 (perhaps a record for any

Trade deficit soared while exports remained constant

major country since the 1930s). Its \$17bn foreign debt is more than double Brazil's, and 30 per cent higher than Mexico's, in relation to its population. Its official unemployment rate is around 20 per cent and an additional 15 per cent of its labour force is kept in artificial jobs at minimal wages, on Government make-work programmes. Even inflation is creeping back above the 20 per cent mark.

Chile's economic collapse began in the second half of 1981 as foreign bankers, who had been falling over themselves to lend the country money, suddenly noticed a huge deterioration in its balance of payments. As the foreign capital which had been surging into the country at an almost exponential rate, rising from \$572m in 1977, to \$2.2bn in 1979 and \$4.8bn in 1981, began to dry up, some hard truths about the Chilean economy were gradually exposed.

Il progetto neoliberalista

della dittatura cilena (1973-1989)

di: Roberto Ventresca

mar 26 novembre 2013

h. 17 | Aula Torresani
S. Giovanni in Monte

Il Caso S.

www.casoesse.org
casoesse@gmail.com